

# Chapter 10

## Service Quality and WOM (Word-of-Mouth): A Study of the Indian Banking Sector

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### ABSTRACT

*The Indian banking industry is going through turbulent times. In this era of mature and intense competitive pressures, it is imperative that banks maintain a loyal customer base. To achieve this objective and improve their market and profit positions, many retail banks are directing their strategies toward increasing customer satisfaction and loyalty through improved service quality. In the present context, characterised by rapid change and sophisticated customers, it is important that banks in India determine service quality factors, which are pertinent to the customers' selection process, as well as the dimensionality of customer-perceived service quality. If service quality dimensions are identified, service managers can improve the delivery of customer perceived quality during the service process and have greater control over the outcome. The author suggests that customers distinguish four dimensions of service quality in the retail banking industry in India. These dimensions of customer-perceived service quality are customer-orientedness, competence, tangibles, and convenience. The results of this study offer strong support for the intuitive notion that improving service quality increases favourable behavioural intentions, namely WOM (Word-of-Mouth) communications.*

### INTRODUCTION

Regulatory changes in the banking industry have been phenomenal and have reduced or eliminated barriers to cross-border expansion, creating a more integrated global banking market. Structural

changes have resulted in banks being allowed a greater range of activities, enabling them to become more competitive with non-bank financial institutions. Technological changes have caused banks to rethink their strategies for services offered to both commercial and individual customers.

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Kangis and Voukelatos (1997) had suggested that in the future, the blurring of identity between banks, insurance companies, and of other possible competitors that will enter in the market, will accelerate, and that customers will shop around more than ever and profitability will come under pressure. The result of this “shopping around” culture, according to Kangis and Voukelatos (1997), will be a higher mobility among customers buying financial products. The authors went on to say that differentiation would continue to lead the marketing strategy of banks, but it would be centred neither on products, as they would be about the same, nor on price, as price differentials would be minimal. It is within this rapidly changing environment as foreseen by Kangis and Voukelatos (1997) that service quality issues are compelling the attention of all banking institutions, and retail banks are striving towards increasing customer satisfaction through improved service quality. This is because it is a well-known fact that high quality service stimulates WOM (word-of-mouth) communications by current customers, enhances customers’ perception of value, boosts the morale and loyalty of employees and customers alike and lends credibility to advertising and the field sales force (Berry & Parasuraman, 1991).

### **Financial Sector Liberalisation in India and Service Quality**

The structural reforms initiated in the real sector of the Indian economy in 1991-1992, had a corollary in the reform of the financial sector. It was felt that a robust banking sector is essential for achieving the objectives of growth and development. A liberalised economy will not be adequately served if the banking sector remains highly regulated. In short, there was a need for banking reforms in the wake of economic reforms, as efficiency in both the mobilisation and the allocation of resources was required.

The financial sector reform in India was designed to infuse “greater competitive vitality in the

system”. To achieve this objective, the Narasimhan committee, among other things, recommended the liberalisation of entry norms and suggested that new banks be permitted in the private sector provided they conformed to the minimum startup capital and other requirements. The committee recommended too, a liberal policy towards allowing foreign banks to open offices in India. It was believed that the entry of foreign banks would have a beneficial impact from the point of view of improving the competitive efficiency of the Indian banking system as well as upgrading the technology. The committee also suggested that banks be encouraged to go in for term lending which was earlier considered the exclusive preserve of term lending institutions, and term lending institutions were to be permitted to provide working capital too. Since the implementation of many of the recommendations, many new private sector banks have been set up, many foreign banks too have set up shop and many more are waiting in queue to get permission from the Reserve Bank of India.

Since the reforms started, the interest rate structure has been deregulated to a great extent and banks have been given a great degree of freedom in determining their rate structure for deposits and advances, as well as their product range. Phenomenal growth in the capital market has also taken place since 1985. Non-banking finance companies have mushroomed, and have encroached upon the turf exclusively reserved for the commercial banks. Banking has also become more competitive in respect of the pricing of bank products and the location of points of sale, that is, the branch network. The end result is that market power is getting shifted from banks to their customers. The freedom of choice which bank customers did not have earlier because of standardised products and regimented interest rates has been given to the customers as a result of the changes taking place (Subramanian & Velayudham, 1997). Another interesting trend that is being observed in the Indian banking scenario today is the rush into retail banking. Shrinking margins coupled

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